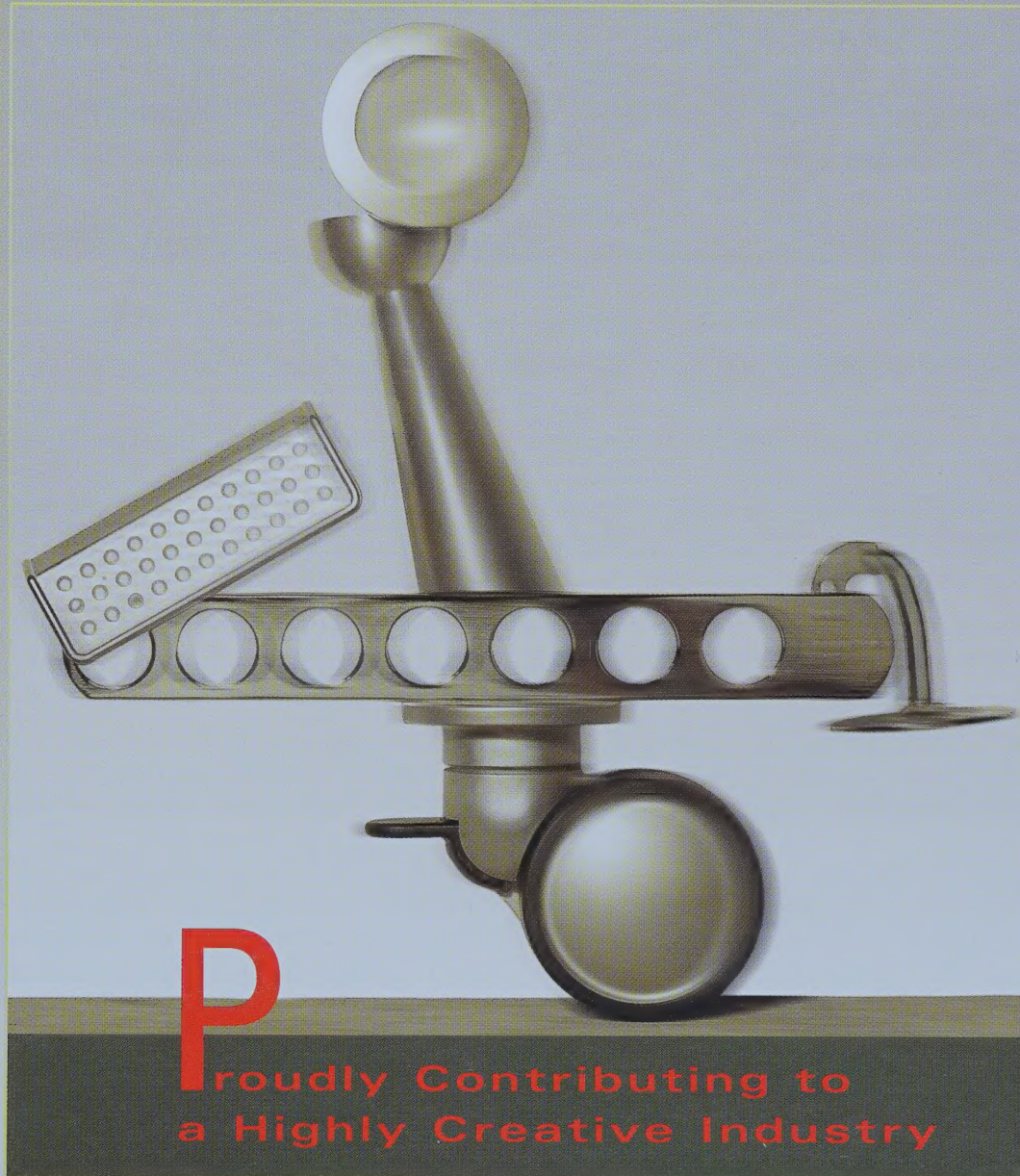


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Richelieu

RICHELIEU
HARDWARE LTD.

Annual Report
2001



Annual General Meeting of Shareholders
 Tuesday, March 26, 2002, at 10:00 a.m.
 Fairmont The Queen Elizabeth, Mackenzie Room
 900 René-Lévesque Blvd. West, Montreal, Quebec

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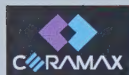
Richelieu



DISTRIBUTIONS
2020

Simtab
Panneaux Neos

 **DAYVAN**



Positioning

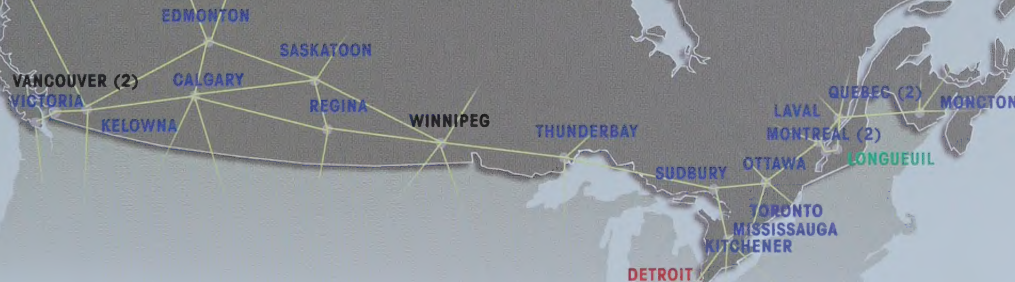
Distribution — Canada's leading distributor and importer of specialty hardware and complementary products
Manufacturing — Manufacturer of veneer sheets and edgework products unique in Canada for its diverse and innovative products marketed around the world • Manufacturer of tackboards, chalkboards and whiteboards

Markets

- Furniture and kitchen cabinet manufacturers including the commercial woodworking industry
- Hardware retailers including hardware superstores



675 Employees
Some 30,000 Products
23 Business Centres



Canada

21 distribution centres including
2 centres also specializing in manufacturing
1 manufacturing subsidiary

United States

1 distribution centre

Quarterly and Stock Information

(in thousands of dollars,
except per-share amounts)

2001

	1	2	3	4
	\$	\$	\$	\$
▶ Sales	46,907	59,145	58,536	62,173
▶ EBITDA	4,786	7,874	8,071	8,345
▶ Net earnings	2,175	3,950	4,058	4,490
▶ EPS (basic)*	\$ 0.10	\$ 0.18	\$ 0.18	\$ 0.20
▶ EPS (fully diluted)*	\$ 0.10	\$ 0.17	\$ 0.17	\$ 0.20

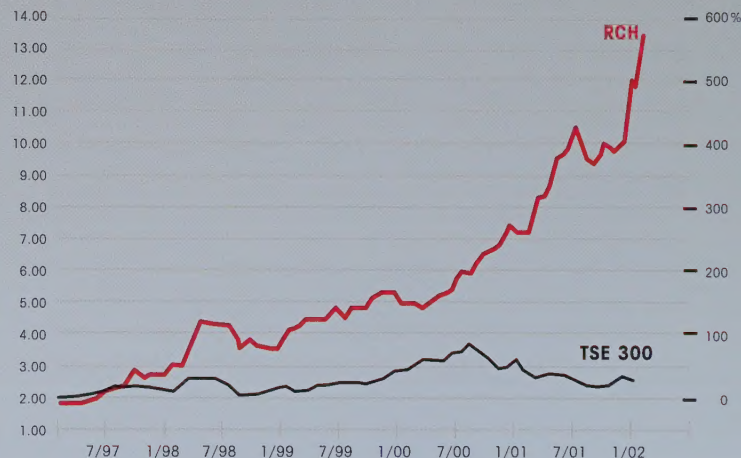
2000

▶ Sales	40,215	51,923	50,601	54,017
▶ EBITDA	4,021	6,914	6,779	7,240
▶ Net earnings	1,847	3,441	3,395	3,698
▶ EPS (basic)*	\$ 0.08	\$ 0.15	\$ 0.15	\$ 0.17
▶ EPS (fully diluted)*	\$ 0.08	\$ 0.14	\$ 0.15	\$ 0.16

1999

▶ Sales	33,588	43,444	42,851	45,224
▶ EBITDA	3,308	5,502	5,608	5,656
▶ Net earnings	1,417	2,609	2,548	2,899
▶ EPS (basic)*	\$ 0.06	\$ 0.12	\$ 0.11	\$ 0.13
▶ EPS (fully diluted)*	\$ 0.06	\$ 0.11	\$ 0.11	\$ 0.12

Two-for-one splits of all outstanding common shares
(April 1999 and July 2001)
High/Low: \$10.75 / \$6.25
(12 months ended November 30, 2001)
Common share price (Feb. 11, 2002): \$13.50



* After retroactive adjustments to reflect the two-for-one splits of all outstanding common shares in April 1999 and July 2001

Financial Highlights

Years ended November 30

(In thousands of dollars, except per-share amounts and ratios)

	2001 \$	2000 \$	1999 \$	1998 \$	1997 \$
Results					
Sales	226,761	196,756	165,107	145,421	106,645
EBITDA	29,076	24,954	20,074	16,693	12,894
(% of sales)	12.8%	12.7%	12.2%	11.5%	12.1%
Net earnings					
before goodwill charges	15,634	13,153	10,206	8,379	6,627
Net earnings	14,673	12,381	9,473	7,697	6,130
Net cash flow from operations ⁽¹⁾	17,693	15,354	11,862	9,829	8,088
Financial position					
Working capital	39,991	32,809	30,931	21,947	23,611
Total assets	125,561	111,364	87,659	84,138	60,944
Long-term debt ⁽²⁾	4,312	4,715	5,012	4,610	2,942
Shareholders' equity	80,718	66,842	58,490	50,622	42,498
Per-share data ⁽³⁾					
Average number of shares outstanding (000s)	22,335	22,422	22,923	23,056	22,949
EPS					
before goodwill charges	0.70	0.59	0.44	0.36	0.29
after goodwill charges	0.66	0.55	0.41	0.33	0.27
EPS (fully diluted)					
before goodwill charges	0.68	0.56	0.42	0.34	0.27
after goodwill charges	0.64	0.53	0.39	0.32	0.25
Net cash flow from operations ⁽¹⁾	0.79	0.68	0.52	0.43	0.35
Book value	3.59	3.00	2.55	2.19	1.85
Ratios					
Return on average equity (ROE)	19.9%	19.8%	17.6%	16.5%	15.5%
Return on average equity (ROE) excluding goodwill effect	33.5%	32.2%	29.6%	30.6%	27.3%
Long-term debt to equity	5.3%	7.1%	8.6%	9.1%	6.9%

(1) Before net changes in non-cash working capital balances

(2) Excluding current portions

(3) After retroactive adjustments to reflect the two-for-one splits of all outstanding common shares in April 1999 and July 2001

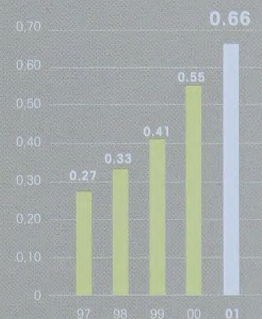
Sales
(in million \$)



Net earnings
(in million \$)



EPS
(in \$)



Cash flows from operations
(in million \$)



2001 Highlights

First Quarter

- ▶ Sales growth of **17%** and net earnings growth of **18%**

Second Quarter

- ▶ Sales growth of **14%** and net earnings growth of **15%**
- ▶ Inclusion of share (RCH) in TSE 300 Composite Index

Third Quarter

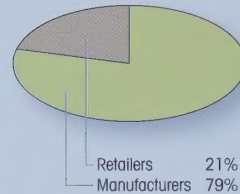
- ▶ Sales growth of **16%** and net earnings growth of **20%**
- ▶ Purchase of the shares of **White-Wood Thunder Bay** (Ontario)
- ▶ Two-for-one split of all outstanding common shares (RCH)
- ▶ Purchase of the net operating assets of **Onward Hardware** (Ontario)
- ▶ Normal course issuer bid for a consideration of \$1.9 million

Fourth Quarter

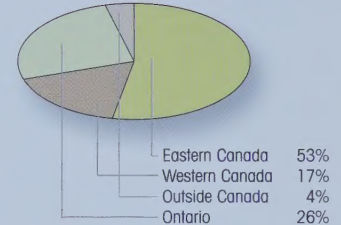
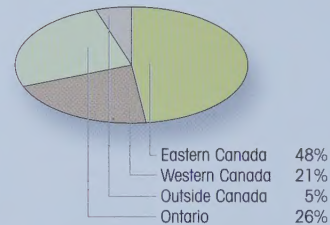
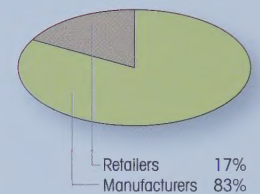
- ▶ Sales growth of **15%** and net earnings growth of **21%**
- ▶ Purchase of the net operating assets of **Office Implants** (Alberta)

Breakdown of Sales

2001



1997



Message to Shareholders



Richard Lord
President and Chief Executive Officer

Richelieu had a very good year in 2001. Net earnings rose 18.5% to \$14.7 million — sales increased by 15.2% to total \$226.8 million - cash flows from operating activities reached \$17.7 million - return on average equity was 19.9%, and 33.5% excluding goodwill. Richelieu's solid track record ranks it as one of the strong growth, high-return companies in Canada, as reflected by its average annual growth of 20% in sales and 26% in net earnings for the last five years, an average annual return on shareholder investment of 39% for the last five years, and the inclusion of its share in the TSE 300 Composite Index in 2001. During the year, Richelieu also made three profitable strategic acquisitions that will yield lasting market synergies.

Where did your growth come from in 2001?

Sustained by all our markets, all four quarters showed strong growth. **Internal growth accounted for 7.0%, while 8.2% came from acquisitions**, namely Les Boiseries Lussier and Reliable Fasteners closed at the end of 2000, plus the partial contribution of White-Wood Thunder Bay acquired in July 2001, Onward Hardware, in late August, and Office Implants, in early October. These last three acquisitions represented some \$13 million in annual sales at the time of purchase.

In 2001, we further extended and diversified our product selection, which remains unique in North America, by introducing more than 2,000 SKUs from top suppliers around the world. We broadened and deepened all our markets using a dynamic and creative marketing strategy, including exclusive programs, and the support of an efficient distribution logistical system tailored to customers' needs. I would like to underline our increased business with Canadian hardware retailers including hardware superstores. This market accounted for 21% of our total sales in 2001, up from 17% in 2000, as a result of our marketing efforts and our acquisitions.

Customer response has proven that our *Everything under one roof* approach and superior quality of service are huge competitive advantages.

What synergies do you anticipate from your latest acquisitions?

In further integrating these acquisitions and harmonizing business cultures, we are creating synergies that will lead to strong sales growth in the coming years. Those synergies are not accidental, but fundamental to our acquisition criteria. Opportunities are sometimes identified several years in advance, but we wait until our criteria and conditions are met to make a fully compatible acquisition. Our goal is to build the best before and after-sales capability in North America.

For example, **Onward Hardware**, based in Kitchener near Toronto, serving customers across Canada and enjoying a solid presence among small and medium-sized hardware retailers in Ontario and Western Canada, helped consolidate our positioning in this niche. It also accelerated our penetration of the Ontario market, for instance with Reliable Fasteners' products. In fact, Onward Hardware gave us an opportunity to strengthen our product lines and stimulate our business with Canada's small and medium-sized retailers.

The acquisition of **White-Wood Thunder Bay**, in Northern Ontario, brought complementary products, a new clientele and a new service centre in that area. It also enabled us to develop and deepen the Northern Ontario and Quebec markets with a more complete specialty offering and a stronger network. What's more, to support our sales strategy in the region, we opened a new distribution centre in Sudbury in 2001.

As for **Office Implants**, the acquisition not only gave us new products, markets and skills in ergonomic office furniture, where we started out successfully a few years ago, but also opened up the new niche of furniture retailers in Western Canada. We intend to offer Richelieu's other product lines to this new clientele.

We continue to leverage our nation-wide organization and sales force to build on the synergies from previous acquisitions. That was what we did with Les Boiseries Lussier, whose lines of mouldings and appliques for furniture and kitchen cabinets and other decorative purposes now extend outside Quebec, backed by marketing programs designed by Richelieu for the entire Canadian market.

What improvements were made in your distribution and manufacturing centres last year?

After making our latest acquisitions and opening centres in Thunder Bay, Kitchener and Sudbury, we now have a network of 23 centres for a total warehousing area of over 600,000 square feet, including our manufacturing subsidiary Cédan and our Detroit distribution centre. Additional leasehold improvements and expansions were carried out to keep pace with our growth. Our centres in Laval, which houses Simtab/Panneaux Neos, and Calgary both increased their warehousing area by 50%, and the Edmonton centre was relocated for greater compatibility with our objectives. In March 2002, the Vancouver centre will separate its manufacturing and distribution operations and will move into new facilities better meeting its needs.

What is your logistical strength and what impact does it have on efficiency and quality of service?

Improving our distribution logistics is an ongoing process. In 2001, we enhanced logistical capabilities in our Montreal centre to support our market development efforts in the United States, and we acquired new equipment to keep up with our current and future growth. We also completed the implementation of a **dashboard** for optimal management information. At Richelieu, logistical changes are only considered useful if they match customers' needs.

What key factors affect Richelieu's product mix?

We strive to meet **current and future market needs** with the most innovative products worldwide. Our key selection criteria are **quality, convenience, esthetics and ergonomics**, depending on the category. **Product life cycles** are monitored closely to match demand and our profit objectives. We also maintain a balance between necessary, essential basic items and high-end, exclusive specialties. **Trends in decoration, architecture and furniture design, and technological changes in production**, are constant sources of new specialty and decorative hardware. In support of architectural and design creativity and customers' new production processes, we feature more and more products that really make a difference.

What is your growth strategy in Canada?

We will focus on further increasing our product selection through **ongoing innovation and acquisitions**. While broadening our clientele, we will deepen our market penetration to provide customers with even more products. Also, we believe the Canadian market still holds great expansion-by-acquisition opportunities. That said, we purchase a company only if it meets our strategic criteria of profitability, matching with our product mix and market trends, contribution of expertise, the right price and potential synergy. Our goal when acquiring a new business is not only to increase sales over the short term, but to build a solid sales organization across North America.

What are your future markets?

Our growth will continue to come from **commercial and residential renovation, driven by three factors: • must do • quality of life • nice to have**. Kitchen and bathroom renovations are still the most common home improvement projects and the best investment for reselling a home. As for commercial renovation, its development is sustained by the need for stores, restaurant and hotel chains, businesses and other organizations to constantly renew their decors for attractiveness and competitiveness.

Manufacturers of kitchen cabinets, commercial and home furnishings, and office furniture remain dynamic, given their ever-increasing need for hardware content. Their growth is also fuelled by solid exports of kitchen cabinets and commercial and home furnishings.

Hardware superstores and other retailers

reflect the continued renovation boom. 18 new superstores opened in 2001 across Canada, and another 15 are scheduled to do so in 2002. Richelieu does business with all players in this niche, and we benefit from their strong growth; similarly, we are growing our business with small and medium-sized hardware retailers. Our market share is on the rise, and we soon expect this business to account for about 25% of our total sales, up from 17% in 1997.

To a lesser extent, **new construction** also contributes to our growth, and we are poised to benefit from the favourable conditions foreseen across Canada in the short and medium terms.

Innovation in our product lines based on market trends remains our driving force. Thanks to the great creativity of our supplier-partners worldwide, our selection follows and often anticipates design and architectural trends, as well as our customers' innovative manufacturing technologies. We are proud of contributing to a highly creative industry.

Based on these growth factors, our outlook is excellent for the coming years. With our market knowledge, strong organization and financial position for further expansion in North America, we are confident about significantly increasing our sales and improving our profitability.

What is your growth strategy in the United States?

The importance of developing the U.S. market, and our inability to find an acquisition matching our criteria, prompted us to open our first distribution centre in Detroit in 1999. Now it has a 20-member team and has become a profit centre from which we can deepen our market knowledge. In 2001, we established a sales force in the Eastern United States to increase our market penetration. We also reinforced logistics at our Montreal centre, which now makes deliveries to customers along the U.S. East Coast. Export customers are another interesting development avenue, where we are happy to see the impact on sales. Finally, we remain on the lookout for any acquisition opportunity meeting our criteria of profitability, the right price, and potential synergy in this important market.

Is e-commerce a viable business option for Richelieu?

Richelieu has successfully conducted electronic data interchange (EDI) transactions with major customers and suppliers for about a decade. As for e-business, our primary objective was to keep up to date with the technology, so we set up a **transactional web site** featuring a catalogue of over 15,000 specialty products and technical specifications. While raising our profile, it is also an important source of reference for customers, architects, designers and any visitor seeking information in this field. We are poised to take advantage of this business alternative whatever its potential, and are further enhancing our on-line layout at www.richelieu.com.

How will Richelieu stand apart in the future?

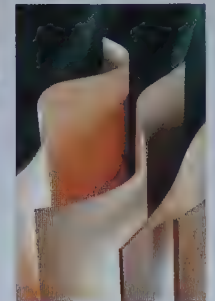
Richelieu will continue to outperform the industry by respecting its core values of realism and creativity in its product lines, service, expansion and marketing, supported by exclusive programs. We will continue to review and adjust our ways of doing business in order to optimize resources and improve efficiency and profitability.

We want to remain an attractive company for our employees who transform our projects into achievements, and 43% of whom are now Richelieu shareholders. That is how we consistently deliver a rewarding return on investment to our shareholders. **But Richelieu remains customer-oriented above all.**



The latest kitchen designs combine esthetics, convenience and ergonomics. They integrate an ever-increasing selection of specialty hardware products such as halogen lighting, stainless steel drawer systems with adjustable interior storage racks and invisible slides, functional ergonomic integrated storage systems, and a wide range of laminates and solid surfaces – all offered by Richelieu.





Office Interiors combine art, materials, functionality and ergonomics to create a productive workplace and a setting fit for welcoming visitors. For their layouts: high-end veneer sheets and a wide range of accessories such as swivel holders for diskettes, swivel brackets for computers adaptable to different formats and models, multidimensional filing drawer slides, and built-in monitor supports to free up work surfaces. All these products are supplied by Richelieu.

Today, commercial renovation not only makes more rational use of space but also offers greater convenience and comfort in shops, hotels, restaurants, etc., thanks also to specially hardware products such as ceramics, commercial laminates and real wood veneer sheets, decorative adjustable fittings for furniture, and discreet high-end hinges – all using the very latest designs.





Reflecting the dynamism of residential and commercial renovation, hardware superstores and small and medium-sized retailers are showing sustained growth across Canada. This market currently accounts for 21% of Richelieu's total sales, and should rapidly rise to 25%. Above are some of the highly diversified knobs and handles from Richelieu's catalogue, available to meet every decorating trend.



RONA l'Entrepôt (Saint-Bruno, Québec)

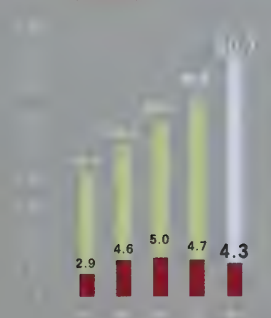
Management's Discussion and Analysis of Operating Results and Financial Position

The year ended November 30, 2001 was highlighted by solid growth, profitable expansion and further reinforcement of Richelieu's financial position. The Company made three strategic acquisitions in Canada that will enable it to build lasting synergies in its major markets. Development and marketing efforts were supported by favourable commercial and residential renovation spending conditions, combined with the growth of kitchen cabinet and home and commercial furnishing manufacturers, who continued to increase their exports.

Year 2001 Highlights

- ▶ The acquisition of **White-Wood Thunder Bay Ltd.** closed on July 3, followed by those of the net operating assets of **Onward Hardware** on August 20, and of **Office Implants** on October 1, 2001. The results of operations of these three businesses are recorded from their effective purchase dates in the financial statements appearing in this annual report.
- ▶ As at July 20, 2001, **Richelieu carried out a two-for-one split of all of its outstanding common shares.** Accordingly, the per-share amounts for prior years (for comparative purposes) presented in this analysis have been adjusted retroactively to reflect this split.
- ▶ **Consolidated sales** rose 15.2% to \$226.8 million.
- ▶ **Earnings before income taxes, interest, depreciation and amortization (EBITDA)** amounted to \$29.1 million, an increase of 16.5%.
- ▶ **Net earnings** grew by 18.5% to total \$14.7 million.
- ▶ **Return on average equity** reached 19.9%; **excluding goodwill**, it rose to 33.5%.

Shareholders' equity and long-term debt
(in millions \$)



Book value per share
(in \$)



Return on average equity



Results

Consolidated sales totalled \$226.8 million in 2001, up 15.2% over \$196.8 million a year earlier, and up 37.3% over the sales of \$165.1 million recorded in 1999.

Some 8.2% of the year's increase came from business acquisitions, and 7.0% from internal growth.

All four quarters in 2001 showed fairly steady growth: 16.6% for the first, 13.9% and 15.7% for the second and third, and 15.0% for the last three months ended November 30, 2001.

Earnings before income taxes, interest, depreciation and amortization (EBITDA) grew by 16.5% to reach \$29.1 million, up from \$25.0 million in 2000. The increase was 44.8% compared with the \$20.1 million posted in 1999.

The **profit margin (EBITDA)** further improved to 12.8% from 12.7% in 2000 and 12.2% in 1999, reflecting the Company's sales growth and changes in product mix.

Earnings before income taxes and goodwill charges totalled \$25.6 million, up 14.9% and 47.0% over \$22.3 million and \$17.4 million respectively in 2000 and 1999.

The \$219,000 increase in depreciation of fixed assets compared with the previous year reflects the higher capital expenditures made in prior years.

Interest and bank charges doubled to total \$1.2 million, compared with \$0.6 million a year earlier, due to the increase in short-term bank loans. Thus, depreciation, amortization and interest expenses totalled \$3.5 million in 2001, up from \$2.7 million in 2000 and 1999.

The effective tax rate decreased by 1.5%, due mainly to the 1% reduction in the federal tax rate and the 1% tax cut in Ontario.

Net earnings rose to \$14.7 million, up 18.5% and 54.9% over \$12.4 million and \$9.5 million respectively in 2000 and 1999. **Earnings per share before goodwill charges** amounted to \$0.70 (\$0.68 fully diluted), versus \$0.59 (\$0.56 fully diluted) in 2000. **Net earnings after goodwill charges** stood at \$0.66 (\$0.64 fully diluted), compared with \$0.55 (\$0.53 fully diluted) a year earlier, an increase of 20.8% in fully diluted earnings per share.

Over the past five years, Richelieu has achieved an average annual net earnings growth of 26.0%.

Cash Flows

Considering the sharp rise in net earnings and the normal increase in depreciation of fixed assets and goodwill charges, **cash flows from operating activities**, before net changes in non-cash working capital balances related to operations, grew by 15.2% or \$2.3 million to reach \$17.7 million or \$0.79 per share, up from \$15.4 million or \$0.68 per share in 2000.

Cash flows from financing activities show net outlays of \$1.9 million resulting mainly from inflows of \$3.8 million in short term bank debt, and outlays of \$1.9 million for the purchase through a normal course issuer bid of 200,000 common shares for cancellation, \$2.9 million for the payment of share purchase options and \$942,000 for a long-term debt repayment.

Cash flows from investing activities used funds of \$7.5 million in 2001, consisting of \$2.9 million in new fixed assets and \$4.6 million for the three above-mentioned business acquisitions. It should also be noted that the Company issued 410,256 common shares for a total consideration of \$4 million for the acquisition of Onward Hardware, without giving rise to any cash flows.

Financial Position

The year's balance sheet changes resulted from the acquisitions closed in the second half as well as Richelieu's internal growth. As at November 30, 2001, **total assets** amounted to \$125.6 million, up 12.7% over \$111.7 million a year earlier, and reflecting mainly the expansion in 2001. **Accounts receivable** increased from \$30.8 million to \$35.3 million, up 14.5% due directly to sales growth. **Inventories** rose 6.7% to \$43.6 million, compared with \$40.8 million as at November 30, 2000, in order to maintain superior-quality customer service. **Goodwill** amounted to \$29.8 million, up from \$24.6 million a year earlier, due to the business acquisitions and depreciation for the year.

As at November 30, 2001, **working capital** totalled \$40.0 million for a current ratio of 2.00:1, versus \$32.8 million and a ratio of 1.84:1 at the close of the previous year.

Considering retained earnings of \$66.0 million, an increase of \$10.0 million or 17.8% compared with the previous year, **shareholders' equity** rose 20.8% to \$80.7 million, up from \$66.8 million in 2000. That gives a 38.0% increase over shareholders' equity of \$58.5 million as at November 30, 1999.

The **book value** rose to \$3.59 per share, up from \$3.00 in 2000 and \$2.55 per share in 1999. It should be noted that the Company had a total of 22,483,312 shares outstanding versus 22,259,056 in 2000, following the issue of 410,256 common shares for a business acquisition as stated previously, the purchase of 200,000 common shares for cancellation, and the issue of 14,000 common shares pursuant to the exercise of options under the share option plan.

Richelieu delivered a **return on average equity** of 19.9%, compared with 19.8% in 2000 and 17.6% in 1999. **Excluding goodwill**, it was 33.5%, up over 32.2% in 2000 and 29.6% in 1999.

Long-term debt (excluding current portion) fell to \$4.3 million as at November 30, 2001, a decrease of 8.5%. The **long-term debt/equity ratio** further improved to 5.3%, compared with 7.1% in 2000 and 8.6% in 1999.

The **share price** ranged from \$6.25 to \$10.75 in 2001. It closed at \$9.75 on November 30, 2001, up almost 42% over \$6.88 as at November 30, 2000.

Richelieu records excellent cash flows from operating activities and shows a healthy, solid financial position year after year. The Company believes it can meet all of its financial obligations in 2002, using mainly the cash flows from operating activities generated during the year. It also benefits from an available line of credit of \$25 million bearing interest at prime, and could have recourse to external financing if necessary.

Accounting Policy Changes After 2001

The Canadian Institute of Chartered Accountants (CICA) has issued two new standards, Section 1581 "Business Combinations" and Section 3062 "Goodwill and Other Intangible Assets". These standards are effective for fiscal years beginning on or after January 1, 2002, and certain guidelines were applicable on July 1, 2001. These standards may be applied on a prospective basis for fiscal years beginning after April 1, 2001, and the Company will adopt them in full for its first quarter of 2002.

Under these standards, all business combinations are to be accounted for using the purchase method, and goodwill will no longer be amortized but instead will be tested annually for impairment. For business combinations recorded prior to July 1, 2001, goodwill and related indefinite-life intangible assets will no longer be amortized but rather submitted to an impairment test to ensure that their fair value is superior or equal to book value. Amounts in excess of book value will be recorded as operating results. The new recommendations will reduce the Company's amortization expense by \$1.2 million (\$961,000 after taxes) in 2002 compared with 2001. According to management's estimates, the impairment test will not result in a decrease in goodwill.

Risk Management

Although an economic slowdown could have a downward impact on results, Richelieu has been consistently successful in dealing with adverse market conditions. Over the years, the Company has achieved ever-growing profits and has made strategic acquisitions that have increased its critical mass and purchasing power while consolidating its leadership across Canada.

As Richelieu stocks some of its products from suppliers worldwide, it can be affected by currency fluctuations. However, the uniqueness of the products it imports and its exclusive marketing programs have always enabled it to react promptly to such situations without affecting its competitiveness.

Outlook

In 2002, the Company will complete the integration of the businesses acquired in the second half of 2001, while leveraging its organization to carve out further synergies. The year-long contribution of these acquisitions will add to the benefits of developing and deepening its markets and expanding its product selection. Richelieu also continues to study acquisition projects matching its growth strategy in North America.

Directors

Jean E. Douville ⁽²⁾
Chairman of the Board
Richelleu Hardware Ltd.
President
Schroder Ventures Canada Inc.

Robert Chevrier ^{(1) (2)}
President
Société de gestion Roche inc.

Geno F. Francoloni ⁽¹⁾
President and Chief Executive Officer
Xenon Capital Corporation

Mathieu Gauvin ⁽¹⁾
Vice-President
Schroders & Associates Canada Inc.

Richard Lord
President and Chief Executive Officer
Richelleu Hardware Ltd.

Robert L. Trudeau ⁽²⁾
Chairman of the Board
Trudeau Corporation

Member of the Audit Committee
Member of the Human Resources
Committee

Officers

Jean E. Douville
Chairman of the Board

Richard Lord
President and Chief Executive Officer

Georges Albert
Vice-President, Finance

Marion Kloibhofer
General Manager,
Central Canada

John Station
General Manager,
Western Canada

Claude Hamilton
General Manager of Divisions

Jean-Pierre Giguère
General Manager
Cédan Industries Inc.

Christiane Jodoin
Lawyer
Corporate Secretary

Auditors' Report

To the Shareholders of
Richelieu Hardware Ltd.

We have audited the consolidated balance sheets of **Richelieu Hardware Ltd.** as at November 30, 2001 and 2000 and the consolidated statements of earnings and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at November 30, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP

Montréal, Canada
December 20, 2001

Chartered Accountants

Consolidated balance sheets

As at November 30
(In thousands of dollars)

	2001 \$	2000 \$
ASSETS		
Current assets		
Accounts receivable	35,279	30,821
Income taxes receivable	838	—
Inventories	43,576	40,846
Prepaid expenses	165	187
	79,858	71,854
Fixed assets (notes 3 and 6)	15,953	14,913
Goodwill (note 4)	29,750	24,597
	125,561	111,364
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Bank loan (note 5)	16,704	12,884
Accounts payable and accrued liabilities	21,366	22,619
Income taxes payable	—	1,396
Current portion of long-term debt (note 6)	1,797	2,146
	39,867	39,045
Long-term debt (note 6)	4,312	4,715
Future income taxes (note 8)	664	762
	44,843	44,522
Shareholders' equity		
Capital stock (note 7)	14,721	10,822
Retained earnings	65,997	56,020
	80,718	66,842
	125,561	111,364

See accompanying notes

On behalf of the Board:



Richard Lord
Director



Jean E. Douville
Director

Consolidated statements of earnings and retained earnings

Years ended November 30

(In thousands of dollars, except earnings per share)

	2001 \$	2000 \$
Sales	226,761	196,756
Cost of sales and warehouse, selling and administrative expenses	197,685	171,802
Earnings before the following	29,076	24,954
Depreciation of fixed assets	1,911	1,692
Interest on long-term debt	393	399
Other interest and bank charges	1,151	572
	3,455	2,663
Earnings before income taxes and goodwill charges	25,621	22,291
Income taxes (note 8)	9,987	9,138
Net earnings before goodwill charges	15,634	13,153
Goodwill charges, net of income taxes of \$246 (2000 – \$195)	961	772
Net earnings	14,673	12,381
Retained earnings, beginning of year	56,020	47,352
Premium on purchase of shares for cancellation (note 7)	(1,811)	(3,013)
Stock options settled in cash, net of income taxes (note 7)	(2,885)	(700)
Retained earnings, end of year	65,997	56,020
Basic earnings per share (note 7)		
Before goodwill charges	0.70	0.59
After goodwill charges	0.66	0.55
Diluted earnings per share (notes 2 and 7)		
Before goodwill charges	0.68	0.56
After goodwill charges	0.64	0.53
Weighted average number of shares outstanding	22,334,987	22,422,014

See accompanying notes

Consolidated statements of cash flows

Years ended November 30
(In thousands of dollars)

	2001 \$	2000 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	14,673	12,381
Items not requiring cash flows		
Depreciation of fixed assets	1,911	1,692
Amortization of goodwill	1,207	967
Future income taxes	(98)	314
	17,693	15,354
Net change in non-cash working capital balances related to operations	(8,307)	(5,573)
	9,386	9,781
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in bank loan	3,820	9,668
Purchase of shares for cancellation	(1,942)	(3,329)
Stock options settled in cash	(2,885)	(700)
Repayment of long-term debt	(942)	(488)
Increase in long-term debt	—	39
Issue of common shares	30	—
	(1,919)	5,190
CASH FLOWS FROM INVESTING ACTIVITIES		
Business acquisitions (note 2)	(4,617)	(12,771)
Additions to fixed assets	(2,850)	(2,200)
	(7,467)	(14,971)
Net change in cash and cash equivalents and balances at beginning and at end of year	—	—
Other Information:		
Income taxes paid	10,615	8,004
Interest paid	1,501	952

See accompanying notes

Notes to consolidated financial statements

November 30, 2001 and 2000 (amounts are in thousands of dollars, except per-share amounts)

NATURE OF BUSINESS

Richelleu Hardware Ltd. acts as a distributor and manufacturer of specialty hardware for residential and commercial kitchen cabinet manufacturers, as well as hardware retailers including hardware and home improvement superstores.

1) Summary of significant accounting policies

The Company's consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results could differ from these estimates. According to management, the Company's financial statements have been properly prepared within the reasonable limits of materiality and in conformity with the accounting policies summarized below:

Change in accounting policy

During the year ended November 30, 2001, the Company adopted the new recommendations issued by the *Canadian Institute of Chartered Accountants* relating to the calculation of diluted earnings per share. This new standard was adopted retroactively and had no significant impact on diluted earnings per share before and after goodwill charges.

In addition, as required by the *Canadian Institute of Chartered Accountants'* new standard discussed below, the Company has not amortized goodwill arising from business acquisitions subsequent to June 30, 2001.

Future changes in accounting policies

During 2001, the *Canadian Institute of Chartered Accountants* approved CICA Handbook section 3062, "Goodwill and Other Intangible Assets". Under the requirements of the new standard, all goodwill and intangibles assets with indefinite lives will cease to be amortized to earnings over time, and will be subject to a periodic impairment review to ensure that the fair value remains greater than, or equal to, book value. Any excess of book value over fair value would be charged to earnings in the period in which the impairment has been determined. The Company intends to adopt this new standard beginning December 1st, 2001, at which time the Company will stop amortizing goodwill acquired prior to July 1st, 2001.

Consolidation

The consolidated financial statements include the accounts of Richelleu Hardware Ltd. and its subsidiaries. All significant intercompany balances and transactions have been eliminated upon consolidation.

Inventories

Inventories are valued at the lower of average cost and net realizable value.

Fixed assets

Fixed assets are recorded at cost. Depreciation is computed under the straight-line method over the following estimated useful lives:

Buildings	20 years
Leasehold improvements	over the terms of the leases
Machinery and equipment	5 to 10 years
Rolling stock	5 years
Furniture and fixtures	5 years
Computer equipment	3 to 5 years

Goodwill

The excess of the cost of acquisition over the fair value of the identifiable net assets acquired is recorded as goodwill and amortized, for goodwill acquired prior to July 1st, 2001, over a period of twenty to forty years. On an ongoing basis, management evaluates whether there has been a permanent impairment in the value of unamortized goodwill based on an estimate of the future undiscounted operating income of each business to which the goodwill relates.

Income taxes

The Company follows the liability method of accounting for income taxes. Under this method future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using substantively enacted tax rates and laws that are expected to be in effect in the periods in which the assets or liabilities are expected to be realized or settled. Changes in these balances are included in net earnings of the year in which they arise.

Foreign currencies

The Company follows the temporal method to translate its foreign currencies balances and transactions and the accounts of its integrated foreign subsidiary into Canadian dollars. Under this method, monetary assets and liabilities are translated at the rates of exchange in effect at year-end and the other balance sheet items and income statement items are translated at the exchange rates in effect at the date of transaction. Exchange gains and losses are included in net earnings for the period.

Forward exchange contracts

The Company periodically enters into forward exchange contracts with major financial institutions to partially hedge the effects of foreign currency fluctuations related to foreign-currency denominated payables and also to hedge firm purchase commitments. Gains and losses on these forward exchange contracts are recognized in net earnings during the same period as the corresponding anticipated transactions.

Share option plan

No expense is recognized when share options are issued to employees under the Company's share option plan. Any consideration paid by employees upon the exercise of share options is credited to share capital. If share options are purchased from employees by the Company, the amount paid net of related taxes is charged to retained earnings.

Notes to consolidated financial statements

November 30, 2001 and 2000 (amounts are in thousands of dollars, except per-share amounts)

1) Summary of significant accounting policies (cont'd)

Employee share ownership program

The Company has an employee share ownership program under which the Company can contribute to the program based on the employees' contribution. In order to enable employees to buy the Company's shares on the market, the employees' contribution is limited to 10% of their annual remuneration while the Company's contribution is determined by the board of directors. The Company's contribution is charged to earnings when the employees' contribution is made under the program.

Earnings per share

Basic earnings per share are calculated using the weighted average number of common shares outstanding during the year. Diluted earnings per share take into account all the elements that have a dilutive effect.

2) Business acquisitions

On June 30, 2001, the Company acquired all of the shares of White-Wood Thunder Bay Ltd. and, on August 20, 2001, the net operating assets of Onward Hardware ("Onward"), two distributors of specialty hardware products in Ontario. In addition, on October 1st, 2001, the Company acquired the net operating assets of Office Implants Inc., a distributor of ergonomic office products in Alberta.

On January 10, 2000, the Company acquired all of the shares of European Hardware Distributors Ltd., a distributor of specialty hardware in Western Canada. On October 6, 2000, the Company also acquired all of the shares of Boiserie Lussier Inc., a Québec City-based distributor of mouldings. In addition, on October 13, 2000, the Company acquired the principal operating assets of Reliable Fasteners ["Reliable"], a Montréal company involved in the importing, packaging and distribution of screws and related products. The excess of cost over the fair value of identifiable net assets acquired from Reliable resulted in goodwill of \$5,850.

These transactions were accounted for by the purchase method and the results of operations were recorded from the purchase date.

Summary of acquisitions

	2001			2000
	Onward \$	Others \$	Total \$	\$
Net assets acquired at stated value				
Current assets	1,840	1,163	3,003	7,662
Fixed assets	20	81	101	389
Goodwill	5,980	380	6,360	6,639
	7,840	1,624	9,464	14,690
Current liabilities assumed	113	544	657	643
Long-term liabilities assumed	—	—	—	176
Net assets acquired	7,727	1,080	8,807	13,871
Consideration				
Cash	3,727	890	4,617	12,577
Balance of sale repaid in 2000	—	—	—	194
Balances of sale payable (note 6)	—	190	190	1,100
Issuance of 410,256 common shares of the Company	4,000	—	4,000	—

3) Fixed assets

	2001		2000	
	Cost \$	Accumulated depreciation \$	Cost \$	Accumulated depreciation \$
Land	3,336	—	2,968	—
Buildings	9,029	2,126	7,996	1,687
Leasehold improvements	1,080	965	1,060	973
Machinery and equipment	8,445	4,576	7,570	4,230
Rolling stock	1,169	681	977	543
Furniture and fixtures	2,063	2,015	2,030	1,525
Computer equipment	4,479	3,285	4,114	2,844
	29,601	13,648	26,715	11,802
Accumulated depreciation	(13,648)	—	(11,802)	—
	15,953	—	14,913	—

4) Goodwill

	2001 \$	2000 \$
At cost	38,661	32,301
Accumulated amortization	8,911	7,704
	29,750	24,597

5) Bank loan

The Company has a line of credit available in the amount of \$25 million [2000 – \$20.5 million] which bears interest at prime and is renewable annually. The Company is committed to provide a first-ranking charge on book debts and inventories as a collateral for the bank loan and the loans described in note 6a) and b), should the ratio of total debt to EBITDA exceed a certain level.

6) Long-term debt

	2001 \$	2000 \$
a) Bank loan maturing in 2003, bearing interest at 6.5%.	3,821	4,035
b) Bank loan maturing in 2005, bearing interest at 6.375%.	743	977
c) Bank loan maturing in 2002, bearing interest at the bank's prime rate, collateralized by an immovable hypothec.	457	537
d) Bank loan maturing in 2004, bearing interest at 7.75%, collateralized by an immovable hypothec.	121	141

Notes to consolidated financial statements

November 30, 2001 and 2000 (amounts are in thousands of dollars, except per-share amounts)

6) Long-term debt (cont'd)

	2001 \$	2000 \$
e) Balances of sale payable, bearing interest at rates ranging from 4% to 6.25% and maturing at various dates in 2002 and 2003.	940	1,100
f) Other loans maturing at various dates between 2001 and 2005.	27	71
	6,109	6,861
Less: Current portion	1,797	2,146
	4,312	4,715

The principal installments due on long-term debt for upcoming years are as follows:

	\$
2002	1,797
2003	3,957
2004	315
2005	40
	6,109

7) Capital stock

Authorized

An unlimited number of:

Non-voting first and second preferred shares issuable in series, the characteristics of which are to be determined by the Board of Directors.

Common shares.

Issued

	2001 \$	2000 \$
22,483,312 common shares		
(22,259,056 in 2000)	14,721	10,822

During 2001, the Company, through a normal course issuer bid, purchased for cancellation 200,000 [2000 – 650,760] common shares for a cash consideration of \$1.942 million [2000 – \$3.329 million]. In addition, in 2001, the Company issued 14,000 common shares at a price of \$2.1625 per share pursuant to the exercise of 14,000 options under the share option plan and issued 410,256 common shares at a price of \$9.75 per share for a business acquisition.

Stock split

On July 20, 2001, a common share stock split was made on a two-for-one basis. Therefore, the number of shares, options and earnings per share amounts were modified retroactively to give effect to this stock split.

Share option plan

The Company has a share option plan for its directors, officers and key employees. The subscription price of each share issued under the plan is equal to the market price of the shares five days prior to the day the option was granted and must be paid in full at the time the option is exercised. Options may be exercised one year after they were granted on the basis of 25% per year and may not extend beyond ten years from the date they were granted. Under the plan, option holders may elect to receive, at the time the options are exercised, cash equal to the difference between the market price of the underlying shares and the exercise price of the options. As at November 30, 2001, 905,350 [2000 – 495,400] options were still available to be granted. In the last two years, transactions involving options are summarized as follows:

	Options	Exercise price per share \$	Total \$
Outstanding, November 30, 1999	1,798,200	1.71 to 4.27	4,246
Granted	90,000	5.15 to 7.05	545
Settled in cash	(284,200)	1.71 to 4.27	(620)
Outstanding, November 30, 2000	1,604,000	1.71 to 7.05	4,171
Granted	261,000	7.28 to 9.96	1,945
Exercised	(14,000)	2.16	(30)
Settled in cash	(658,950)	1.71 to 4.26	(1,468)
Cancelled	(12,000)	7.28	(87)
Outstanding, November 30, 2001	1,180,050	1.71 to 9.96	4,531

The table below summarizes information regarding the share options outstanding as at November 30, 2001:

Share options outstanding				Exercisable options	
Range in exercise price (in dollars)	Number of options outstanding (in thousands)	Weighted average remaining period (years)	Weighted average exercise price (in dollars)	Number of options outstanding (in thousands)	Weighted average exercise price (in dollars)
1.71 to 2.20	638	4.10	1.98	638	1.98
4.27 to 5.15	239	6.80	4.39	163	4.31
6.35 to 9.96	303	9.17	7.32	13	6.66
	1,180	5.95	3.84	814	2.53

Notes to consolidated financial statements

November 30, 2001 and 2000 (amounts are in thousands of dollars, except per-share amounts)

8) Income taxes

	2001	2000
	\$	\$
Current	10,085	8,824
Future income taxes due to temporary differences	(37)	314
Future income taxes due to the impact of tax rate changes	(61)	—
	9,987	9,138

The effective income tax rate differs from the combined statutory rates for the following reasons:

	2001	2000
	\$	\$
Combined statutory rates	39.2%	40.6%
Income taxes at combined statutory rates	10,038	9,050
Increase (decrease) resulting from:		
Manufacturing and processing credit	(52)	(119)
Impact of tax rate changes on future taxes	(61)	—
Miscellaneous non-deductible expenses	62	207
	9,987	9,138

Future income taxes in the balance sheet reflect the net tax impact of temporary differences between the value of fixed assets for accounting and tax purposes.

9) Commitments

a) Leases

The Company is committed with respect to operating leases for warehouse and office premises expiring on various dates up to 2006. The future minimum payments, excluding executory costs for which the Company is responsible, are as follows:

	\$
2002	1,360
2003	1,126
2004	752
2005	595
2006	398
	4,231

b) Forward exchange contracts

As at November 30, 2001, the Company held the following forward exchange contracts having maturities of less than one year:

Type	Currencies	Average exchange rate
Buy	5,600 euros	1,3908
Buy	2 000 \$US	1,521

10) Financial instruments

Fair values

The carrying value of the accounts receivable, bank indebtedness and accounts payable and accrued liabilities are a reasonable estimate of their fair value because of their short maturity.

The carrying value of the loans included in the long-term debt approximates their fair value either because of the floating rate nature of some loans or because management estimates that the loans payable with fixed interest rates have no significant difference between their fair value and their carrying value, based on rates currently available to the Company on loans with similar terms and remaining maturities.

As at November 30, 2001, the fair value of the forward exchange contracts is \$200 representing the amount the Company would receive on settlement of these contracts at spot rate.

Credit risk

The Company sells products to customers primarily in Canada. The Company performs ongoing credit evaluations of customers and generally does not require collaterals. As at November 30, 2001 and 2000, no customer accounted for over 10% of the total accounts receivable.

11) Segmented informations

Management has determined that the Company's operations involve the manufacturing and distribution of specialized hardware. Manufacturing activities represent less than 10% of the Company's overall activities.

The Company's sales to foreign countries are primarily directed to the United States and amounted to \$10.988 million (2000 – \$10.273 million).

12) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted for the current year.



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